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DEPARTMENTS OF LABOR, HEALTH AND HUMAN
SERVICES, EDUCATION, AND RELATED AGENCIES
APPROPRIATIONS FOR 2002

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS
FIRST SESSION

SUBCOMMITTEE ON THE DEPARTMENTS OF LABOR, HEALTH AND HUMAN SERVICES,
EDUCATION, AND RELATED AGENCIES

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PART 6

RELATED AGENCIES

	Page
Institute of Museum and Library Services Testimony.....	1
Railroad Retirement Board.....	11
Corporation for Public Broadcasting.....	135
National Labor Relations Board.....	229
Social Security Administration.....	519
Medicare Payment Advisory Commission Testimony.....	701

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[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Thursday, May 24, 2001.

CORPORATION FOR PUBLIC BROADCASTING

WITNESS

ROBERT T. COONROD, PRESIDENT AND CEO, CORPORATION FOR PUBLIC BROADCASTING

Mr. Regula. We will take a short break while the next panel comes up.

[Recess.]

Mr. Regula. Next is the appropriations for the Corporation for Public Broadcasting. We are pleased to welcome you, Mr. Coonrod, the President and CEO of the Corporation for Public Broadcasting. Your full statement will be made a part of the record. We will appreciate if you will summarize for us.

Mr. Coonrod. Thank you, Mr. Chairman. I am pleased to be here this morning to present the budget request for the Corporation for Public Broadcasting and several key public broadcasting initiatives. Your predecessor, John Porter, who I testified before him many times, was a good friend of public broadcasting. He supported us and challenged us both, and that was a good combination.

Mr. Regula. I hope to challenge you.

Mr. Coonrod. Maybe I can convince you to do both as well. Public television continues to have the benefit of his counsel on the PBS board, as you know.

Mr. Chairman, you take the helm of the subcommittee at an exciting time. We look forward to working with you and the full subcommittee. For public broadcasters, the next several years hold both the challenge and the promise of great opportunity as we work to improve service to the American people.

CPB is charged with facilitating the development of public broadcasting services that deliver creative, diverse, high quality programming to all Americans. My goal today, Mr. Chairman, is to provide you with an overview of the public broadcasting system and explain how continued support from Congress will help us further our mission to deliver services that meet the educational, cultural and civic needs of the American people.

There are more than 1,000 public television and radio stations. They represent the backbone of the Nation's public broadcasting system. Each is as individual and creative as the community and people it serves.

Public stations, which are often the only locally owned and operated stations in their communities, are in a unique position to address local needs. They help students meet their State's educational standards, they prepare potential employees to enter the workforce, provide teachers with resources that improve their teaching, and create forums to address important civic issues.

With the transition to digital broadcasting, public broadcasters will provide even more of these valuable services to their communities and to the American public at large. This expansion of services will be possible because digital technology enables stations to broadcast or multicast several channels simultaneously. Stations may then devote these additional channels to single purpose programming, such as children's educational programs, Lifelong Learning or local civics programs, while continuing to broadcast popular public television programs such as the Civil War, NOVA, and the American Experience.

Mr. Chairman, this is a little primer on digital broadcasting which you have before you, and it has a number of things in it:, a digital time line and some other pertinent facts. But I would also refer you to the sample schedule. The stations in Youngstown and Akron, WNEO and WEAO, have laid out what their multicast schedules would look like after the conversion to digital. It is a useful way, to get a sense of how digital television will change what we do.

You can see, for example, on the left column is the current broadcast schedule, and then what the digital broadcast schedule would look like after 2003. They continue to have the same programs, but then you have the Lifelong Education channel, the Civics channel, and a special channel for kids. So it is an attempt to try and present graphically what the change will look like.

Stations will also have the ability to provide what is called enhanced television. This allows viewers to access extra information while watching a program. It makes it possible to transmit data to schools or provide reading services for the visually impaired.

Two years from now, all public television stations will be broadcasting a digital signal, and the preparations for this change present a significant challenge. While many are receiving financial support from their State governments and from local and private donations, Federal support is essential to insure the conversion in all communities.

Mr. Chairman, we are requesting \$395 million in fiscal year 2004. Congress has supported the practice of advance appropriations for CPB for 25 years. While we appreciate the goals of the administration to impose budget reform, we believe that the advance appropriations provided to CPB are critical to achieving our mission. We greatly appreciate the fact that the concurrent budget resolution recently approved by Congress exempts the Corporation for Public Broadcasting from the advance appropriation restriction, and we hope that the Appropriations Committee will continue to support this exemption.

The \$30 million increase that we request for FY2004 for a total of \$395 million, will be used to keep pace with inflation, to meet the technological challenges I am outlining here today, and to expand valuable services in the community. My written testimony details how in accordance with our statutory formula the funds will be distributed to stations to support their current programming and services and help them prepare for the digital future.

Mr. Chairman, we do unconditionally support the

administration's request for \$20 million for digital content that is essential to shepherd the research, development and distribution of new programming for digital transmission. We need your support and cooperation to prepare public broadcasting for the technological revolution that I think this program schedule exemplifies.

We hope that the \$20 million for 2002 can be combined with \$20 million that was appropriated in 2001 contingent upon authorization. It is critical to our effective planning time line to secure the support now so that our stations will be able to take full advantage of digital technology and offer the public the wealth of educational, civic and cultural programming and other services that have always been the hallmarks of public broadcasting.

Much of the infrastructure that supports public broadcasting has received Federal support through the Public Telecommunications Facilities Program, PTFP, at the Department of Commerce. We have projected the cost of converting all public broadcasting stations at \$1.8 billion. States have already contributed \$400 million to this effort, and our total request of the Federal Government is \$699 million over several years.

I recognize, Mr. Chairman, that the PTFP funding is not under your subcommittee's jurisdiction, but I would ask you and others on the Subcommittee on Commerce, Justice and State to consider the request of the stations for the \$110 million in 2002 for PTFP support. It is critical to the stations making this successful transition to digital.

Your subcommittee, Mr. Chairman, looks at another area that is vitally important to public broadcasting as well, and you must make some critical decisions about the needs of education in this country. As you struggle with these decisions, I would ask you to continue the Federal support for children's educational programs in public broadcasting that are credited with increasing children's reading skills and providing critical training for teachers across the country.

Specifically, the Ready to Learn program is a cooperative effort between the Public Broadcasting Service and the U.S. Department of Education that supports children's educational television programming focused on reading and school readiness skills and workshops for parents and caregivers. Ready to Learn has been proven to help kids learn.

Similarly, TeacherLine is a comprehensive, professional development resource designed for college instructors, K-12 teachers, and future teachers. Public television is seeking continued funding in 2002 for these successful programs in the amounts of \$24 million for Ready to Learn and \$8.5 million for TeacherLine.

Mr. Chairman, for more than 30 years, American public broadcasters have provided the American public with the highest standards of broadcasting and services. The American public supports our efforts, as documented by a recent Roper poll, which shows that Americans in every generation group consider public television and radio among the five best values received in return for their tax dollars.

Our stations have pioneered the use of telecommunications to provide services and education to the American public, and

we remain committed to this goal. We see the new digital age as one filled with opportunities, and we look forward to it with true excitement.

We ask for your help, and guarantee that you and our other viewers and listeners will share in the rewards that follow.

I would be happy to take whatever questions you have, Mr. Chairman. Thank you.

[The information follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

DIGITAL TELEVISION

Mr. Regula. Thank you. The practical effect, I notice this is 1, 2, 3, 4, okay, you have a digital TV set. You get on to 45-49. How do you select 1, 2, 3 or 4?

Mr. Coonrod. On your remote, you will click between--say it was channel 49, it will be 49-A, 49-B, 49-C and 49-D.

Mr. Regula. You just click one, click two?

Mr. Coonrod. Right. And you will be able to choose then the program that you wish. But because digital also allows for datacasting, you will also have access to take an electronic program guide, so you will be able to go through and look at what time programs are going to be available on the various multicast channels.

Mr. Regula. Won't this increase the workload of the producers because they have got to produce four sets of programs instead of one?

Mr. Coonrod. Well, to some degree it would increase the workload of the producers, but it provides us an opportunity as well. One of the things that public television has noted is that it has been constrained by the medium. We serve multiple audiences, such as children and adults. Many stations engage in educational activity. But by and large, they have had a single channel on which to provide these services.

In this case, they can multicast. So at the same time that they are providing a Ready to Learn service for preschool kids, they can also be providing the Educational service for other ages so those services don't have to compete with each other. Much of that programming is available.

Part of what the \$20 million we are requesting would enable us to do would be to make sure we can catalogue and digitize those programs that they would be available for multicasting. So on the one hand, there is programming that could be multi-purposed, but on the other hand, Mr. Chairman, you are absolutely right, this is a challenge for producers. It is a challenge not just in the need to produce more programming, but also to learn how to use the digital equipment and the digital technology effectively.

We have been supporting a number of workshops around the country for producers to help them become a partner in the transition. Part of the \$20 million for digital that we are requesting would be to extend those services to provide training at the station level for producers so that they could genuinely be a partner in using this new technology and taking

full advantage of it.

Mr. Regula. They would just have one studio and one transmission tower which would be sending out four different programs?

Mr. Coonrod. That is right. In other words, the four programs would be embedded in a single signal. You would have a single transmission facility.

Mr. Regula. I am sorry you don't have Little Bear here. I will have to report to my grandson. Maybe he will write a letter. He likes Little Bear.

Mr. Coonrod. I see.

Mr. Regula. A lot of these channels or these production facilities are connected to colleges, aren't they?

Mr. Coonrod. Yes, sir. About a third of the stations are licensed to colleges and universities.

EDITORIAL CONTROL

Mr. Regula. Now, what is your policy on editorial content? Because it is public radio, it is financed by the taxpayers in part. What kind of a policy do you have in terms of making sure that news distribution is news distribution, not editorial content?

Mr. Coonrod. If you mean the Corporation for Public Broadcasting, we don't have any direct role in editorial decision making. The editorial decision making is the purview of the local licensee. We have what I would describe as two responsibilities under the law. On the one hand, our job is to protect public broadcasting from any undue interference--the heat shield role. The other role is to assure objectivity and balance in programs of a controversial nature.

We can't do that directly since we don't have any editorial responsibility, but we have a feedback loop where we provide feedback to producers and to stations when we hear criticism. We have 800 numbers and Web sites and that sort of thing.

In addition, National Public Radio, for example, has established an ombudsman, which is a direct channel that the people have if there is something on National Public Radio that they object to. There is an ombudsman who can look into the question. That is in the last year and a half that that ombudsman has been established. That has been a very positive step.

Finally, I think we employ what are traditional and well-established editorial guidelines for the programming. Part of what we have done at CPB is helped to ensure that station staffs are familiar with standard journalistic procedure and editorial guidelines, especially since many stations are doing local news. It is kind of an educational role as well. But to reiterate, we do not have any direct responsibility for the editorial content.

Mr. Regula. What percent of programming is originating with the studio, like 45-49 in my case, and what portion of it is simply transmission services that they get from a central source?

Mr. Coonrod. It is hard to generalize, so the statistics I give you will be general in nature and subject to a lot of exceptions. But probably between 5 and 10 percent of television

programming is generated locally. The rest comes from several central sources, not a single central source.

In radio, about 48 percent of all programming is locally produced.

Mr. Regula. CPB Federal funds, are they used for operations or programming or both?

Mr. Coonrod. Well, both. We could go through how the money flows, but stations use them for both. In fact, we also support the development of new programming.

DIGITAL FUNDING

Mr. Regula. The \$20 million would be used for conversion?

Mr. Coonrod. The \$20 million, Mr. Chairman, would be used for four important categories. First is to continue the R&D work that has been started; secondly, to make sure that we can manage the digital assets well, which is to take advantage of the incredible libraries of programming that are already available; third would be for the necessary training at the station level and for producers; and, the fourth element would be to actually support the production of new digital content, primarily educational content. Educational content would be K-12, Lifelong Learning, and other kinds of content that would be used on these multicast channels. So those are the four elements.

Mr. Regula. Mr. Kennedy.

ADVANCE APPROPRIATIONS

Mr. Kennedy. Thank you, Mr. Chairman. I would like to ask you about the Workplace Essential Skills series. We found that in Rhode Island this series, a 25-part series for teenagers and adults to learn skills they need to find and keep a job, was very useful. So I wanted to know how you planned to get these series out if the advanced appropriation is not available, or would that not be possible?

Mr. Coonrod. Well, if the advance appropriation were not available, it would make it very difficult for stations around the country to plan the acquisition of programs.

The program you cite is a good example of the kind of thing we are talking about in a multicast environment; here is a program that is produced in Rhode Island and has proven to be very effective there. In a multicast environment, other stations that have similar kind of workforce issues could take that program and broadcast it on their stations in their markets. So it is a way of multipurposing a program that has already proven its value and effectiveness.

If the stations were not able to have the predictability of the advance appropriation, it would affect their ability to plan and to make the kind of acquisitions long term that are important.

But there is another issue here that I would like to mention, and that is the ability to leverage other dollars. The Federal dollar leverages about \$8 from other sources. When it comes to things like Lifelong Learning or Education for Adults, there is usually a funder who is willing to underwrite the cost of that kind of programming. Sometimes it is the State government, sometimes it is an

educational institution. The symbol that the Federal support provides is a very important one in helping to secure those other sources of underwriting revenue.

Mr. Kennedy. Would you identify for me the part of the CJS budget that you were speaking about in your testimony?

Mr. Coonrod. Yes. It is the Public Telecommunications Facilities Program, which is part of NTIA, within the Department of Commerce. It is the program that has traditionally provided support for public telecommunications facilities. By that we mean equipment that stations use for production and transmission of programming.

It is done on a matching and a needs basis. So stations in larger markets, for example, get their grants matched at a different percentage than stations in smaller markets. It has proven to be extremely successful. The people there have a lot of experience in this area, and while it would be possible for us to run a program like this, there is one that exists within the Federal Government and it would seem redundant to try to replicate those services.

Mr. Kennedy. So that is where the pot of money comes from?

Mr. Coonrod. Exactly.

Mr. Kennedy. So if you could identify that, I would like to keep an eye out for it, because I happen to serve on the other subcommittee of CJS.

Mr. Coonrod. Terrific. That is very important for the stations around the country. They are familiar with the procedures, and the procedures work quite well.

NATIVE AMERICAN PROGRAMMING

Mr. Kennedy. I also wanted to ask you about the American Indian Radio on Satellite Network, AIROS Network, the national distribution program for native programming on tribal communities. For example, your group awarded a \$1.2 million grant to Alaska's KUAC Broadcasting Corporation to continue production of the daily talk service, Native America Calling.

But there are only currently 18 States where AIROS stations are located, only five east of the Mississippi. Given the fact that many native tribes are located in isolated rural areas, can you explain the process of deciding where AIROS stations are located?

Mr. Coonrod. AIROS stations that take down the service are stations that choose to take down the service. They tend to be native stations, often on reservations. There are no barriers to entry, so to speak. There are no fees that are charged or anything like that. So essentially the local station management determines that this is programming that would be of interest or value to the audience.

I think what we can do is a better job of promoting the service in communities around the country. Native America Calling is a show that has proven to be very helpful in identifying key issues among Native Americans and in helping to articulate views on those issues. By combining those services with the work that Koahnic has been doing in Alaska, I think what we have done is we have created a kind of critical mass for native programming in one place under the management of Koahnic Broadcasting, which is very capable.

I hope what you are going to see in the years ahead, is an expansion, a better take-up of the service. I think we have gotten the programming where it works. I think that the satellite distribution is in place. Now it is a matter of promoting it around the country.

Mr. Kennedy. Well, I would certainly like to have your input into how to assist in that. The Chairman and I and other members were down at the Centers for Disease Control, and they had a very archaic broadcasting system. Yet their whole mission is to educate the public about the overall public health and how to prevent the kinds of epidemiology that we see in this country, especially with obesity and diabetes, and, of course, with Native American people diabetes is an enormous problem, four times the national average. It would seem to me having these programs, these facilities that you offer, would be very useful to transmit public health messages as well.

Do you work like with the CDC at all in terms of getting some information from them?

Mr. Coonrod. I know that the producers of the program have regular health segments, and I presume that the CDC is part of the groups that they work with, because those are critical issues.

Mr. Kennedy. Well, I hope that your \$1.5 million increase in additional projects may include some Native American projects.

Mr. Coonrod. The other service that is on satellite, in addition to Native America Calling, is National Native News, which is a daily news program, a Native American news program. That often deals with health-related issues as part of the regular news coverage.

Mr. Kennedy. Great. Well, I look forward to working with you. I know the chairman has a lot of understanding and deep knowledge of these issues, and I certainly will look forward to working with you and the chairman to see that your \$5.2 million increase in technological services and radio stations also includes technology needed by the Native American radio broadcasting system. Thank you.

Mr. Regula. I think Mr. Kennedy has touched on an interesting point though, and that is the dissemination of news of a health nature. I have concern that NIH's activities, and they have a Web site actually, and CDC likewise, do not really reach the vast public. I was just looking through this chart, and with the exception of Anxiety Disorders in Children, there isn't a whole lot on here of a health nature.

Mr. Coonrod. I am sorry, which chart?

Mr. Regula. The digital TV that has the four choices.

Mr. Coonrod. This is illustrative. I am sure every day wouldn't be directed to Anxiety Disorders in Children. I think when it comes to health-related topics, public broadcasting, both at the local level and the national level, has been a leader in providing information, both in terms of the news, but also the kind of news you can use.

There is a series, for example, that was widely praised last winter about Gray Matters, which was a whole series about the brain and brain disorders, which won several awards. Those kinds of in-depth documentary series can be very valuable.

National Public Radio's Talk of the Nation, actually the

Friday program is called Science Friday, and the subject is science, but medical topics are frequently the topics that are discussed.

So my sense is that public broadcasters are sensitive to those needs, and one of the reasons for doing both Native America Calling and a similar program we do for Latinos, called Linea Abierta, for the Latino call-in show, is so that we can also provide health-related issues and others that are specific to those communities.

Mr. Regula. I think, just as a suggestion, if you did a special on CDC, sent a team down there, likewise on NIH, it would probably be an eye opener for a lot of people, because there is a real listening and viewing audience out there.

Mr. Coonrod. Yes. The work they do is extraordinary.

Mr. Regula. It is extraordinary. If I walked down the street in my little town and asked somebody about CDC, they would think it is probably--they wouldn't know what it was.

Mr. Kennedy. It would belong in a music store.

Mr. Regula. All right, that is right. Likewise, and I have tried this out, National Institutes of Health. I find very few people really have an understanding of how important these two agencies are. That is what Mr. Kennedy was suggesting, and you may want to take that back to your producers.

Mr. Coonrod. I would be happy to do that, because it is a subject of key interest to the American public.

Mr. Regula. It is as important to know about as baseball.

Mr. Coonrod. Well, maybe not. Yes, sir, it is extremely important, and I will take that back.

STATUTORY FORMULA

Mr. Regula. As I understand it, 25 percent of your funding goes to public radio and 75 percent to public television, is that right?

Mr. Coonrod. In effect, that is right.

Mr. Regula. That is statutory.

Mr. Coonrod. Under a statutory formula.

Mr. Regula. Does CPB do preparation of programming, or are you just an administrative agency?

Mr. Coonrod. We do two things when it comes to the--I will use radio as an example. We provide a community service grant to stations that qualify. For example, we consult regularly with the station community to develop the criteria for those grants. Recently we have established criteria that put emphasis on rural service, so stations in rural areas get their NFFS, their non-Federal financial support, matched 25 percent higher than stations in urban areas, as a way to promote stations in areas not well served by radio.

In addition, we provide stations with funds to purchase programming, either from NPR or Public Radio International or from other sources.

Finally, about a small percentage of our money goes to support the development of new programming. So we make the programming calls as to what the new programs might be.

Mr. Regula. But the actual production is done----

Mr. Coonrod. By someone else.

Mr. Regula. By someone else. So you tend to be in an

overarching administrative function?

Mr. Coonrod. Right. We give the grant to someone. We run the competition and then at the end give the grant to someone.

Mr. Regula. What percent of the cost of the production in both TV and radio is Federal money and what percent, of course, would be private and/or other State or local public sources?

Mr. Coonrod. Once again, these are general averages.

Mr. Regula. I understand.

Mr. Coonrod. But we are almost never a majority funder, and generally we are somewhere in the neighborhood of 20 percent, 15 to 20 percent of the total funding. The advantage of the CPB money is that it is kind of a seal of approval. If you get that initial commitment, then you can go out and raise money from foundations and from other sources.

UNDERWRITING

Mr. Regula. Which raises another interesting question, and that is what is the policy on advertising? Do you limit it to certain types of advertising, or anybody that walks through the door and wants to advertise on either television or radio?

Mr. Coonrod. First of all, Mr. Chairman, we don't call it advertising.

Mr. Regula. Well----

Mr. Coonrod. Under the FCC guidelines, it is called underwriting.

Mr. Regula. Okay.

Mr. Coonrod. All stations, all public broadcasting stations are licensed as noncommercial educational stations under the FCC guidelines, and they have their regulations.

What the public stations do is voluntarily establish guidelines that are more restrictive than those that are permitted by the FCC, so that, for example, in television the length of the underwriting credit is limited. Programs are not interrupted and a number of other more restrictive guidelines than what is permitted by the FCC. So those are the guidelines that both stations follow and producers follow.

But we come back to a central point, and that is by law we must identify all sources of revenue. It starts from the basis that these are noncommercial education licensees and they must identify to their listeners and viewers all of the sources of revenue they have. So that is one of the essential reasons for underwriting.

Now, some people are more creative with their underwriting techniques than others.

Mr. Regula. I have noticed that. We have law firms and they do get all the names in. The Smucker's Company is in my district, and they are really public spirited people and they underwrite a number of programs, and I am sure you have other public spirited companies that do likewise. But I see what you are saying. It is not advertising per se, it is support.

Mr. Coonrod. I am not allowed to use the A word.

Mr. Regula. We are being good neighbors. Okay, Mr. Kennedy, do you have anything further?

READY TO LEARN

Mr. Kennedy. Just finally, I am concerned about the Administration's proposal to eliminate funding for the Ready to Learn Program, which supports the development of high quality programming for children. The budget zeros out the \$16 million provided last year for this program which CPB and PBS administer.

What children's programs have been produced with these funds in the past and what would be the impact on your ability to support high quality children's programs if these funds are eliminated?

Mr. Coonrod. The programs, the signature programs, Arthur, Dragon Tails and Between the Lions, three very important programs, have received funding from the Department of Education. But the other thing that is important about that fund is that it provides outreach money for stations to do outreach into their communities. Part of the new plan that has been worked out with the Department of Education would be to increase those station grants from \$25,000 to \$50,000. So that each station that was a Ready to Learn station would have this grant to do outreach in their communities. By that, we mean do workshops for parents and caregivers to help them understand how to use the reading programs on television. It is a very important part of what we do.

Some of the research from both the University of Alabama and the University of Kansas recently indicate that the programs really do work. If parents go through the seminars, one of the things that we find is that the kids in those families read more, they read more with their parents, and it is a very constructive thing. It is a very useful program, so we obviously support it at CPB, but we think the Department of Education support is critical going forward.

Mr. Kennedy. So you are saying you are upset that the Department of Education budget zeros it out and would like to see it supported and restored?

Mr. Coonrod. Well, I would certainly like to see it supported and restored. But to be clear, every year we have had to make this argument, and every year the Congress has come forward and helped get this money into the Department of Education budget for us.

Mr. Kennedy. Well, it certainly helps to have your testimony. If you can provide us with any additional information with regard to that, we will try to send it over to our colleagues to make sure we keep this funding going through the Department of Education budget as well.

Mr. Coonrod. Thank you.

Mr. Kennedy. I was about to say send it over to someone else, and I realized no, send it over to us. I am not used to this, Mr. Chairman. We have a broad scope of responsibility here.

Mr. Coonrod. This committee and subcommittee and the comparable subcommittee in the Senate have been strong supporters of this program in the past. We think the research shows it is really working.

Mr. Regula. Well, we thank you for coming and for your testimony. So I think you get to wind up our public hearings. Now all we have to do is decide how much to give to each of the many supplicants that have come our way over the last several

months.

Mr. Coonrod. Does being last help at all?

Mr. Regula. I thought maybe that was coming. Well, thank you for being here.

Mr. Coonrod. Thank you, Mr. Chairman. Thank you, Mr. Kennedy.

Mr. Regula. The committee is adjourned.

[The following questions were submitted to be answered for the record:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Thursday, May 17, 2001.

NATIONAL LABOR RELATIONS BOARD

WITNESSES

PETER J. HURTGEN, CHAIRMAN

JOHN E. HIGGINS, JR., ACTING GENERAL COUNSEL

JOHN C. TRUESDALE, BOARD MEMBER

HARDING DARDEN, JR., BUDGET OFFICER

Introduction of Witnesses

Mr. Regula. Mr. Hurtgen.

Mr. Hurtgen. Right.

Mr. Regula. Have I got it right?

Mr. Hurtgen. You do.

Mr. Regula. Mr. Hurtgen, I understand you are rather new at this responsibility.

Mr. Hurtgen. I think it is about 15 hours.

Mr. Regula. Fifteen hours, well--so no questions, yet. We will wait for your testimony. We will put the entire testimony in the record and you can summarize as you choose.

Mr. Hurtgen. All right. Thank you, Mr. Chairman.

It is a pleasure and an honor to be here to present the budget to you of the National Labor Relations Board. It is not an unalloyed honor, frankly, though, because, as you just alluded, I became the Chairman last night.

Seated to my right is the esteemed person I changed places with, Former Chairman John Truesdale.

Mr. Regula. Oh, we had an election? Is that the idea?

Mr. Hurtgen. Well, there was one.

Mr. Regula. Right.

Mr. Hurtgen. And to my far left is our new Acting General Counsel, who also was appointed last night, and he is here to present the bulk of our budget to you. No, I am kidding.

The man to my immediate left, Harding Darden, Jr., is our budget officer, and he is representative of the outstanding career employees that we have at the NLRB and he is the most knowledgeable person, of course, about our budget.

We have submitted remarks for the record which have been changed at least to reflect my name on the title, but the text of them reads as though they are being presented by former

Chairman Truesdale, and so there is some awkwardness there.

Mr. Regula. I suspect this is somewhat of a nonpartisan operation.

Mr. Hurtgen. It is very much nonpartisan, and I have only a few remarks I would make which are set forth in the remarks of record, and they are as follows:

Opening Statement

We are seeking from you a budget of \$221,438,000 that is a 2.3 percent increase over the current year budget. We believe that will adequately provide us with the funds to pay the mandated increases in employee compensation, rent increases that come with every year, it seems, and provide us with the necessary funds to continue to work our inventory down, our case inventory down, both in the field from the General Counsel's side as well as from the Board's side. It will also allow us to continue the training effort that we have undertaken under Former Chairman Truesdale's guidance a couple of years ago--something that had lagged in prior years, but we are able now, with funds in this year's budget and the funds sought from you for next year, to continue that effort, and that is an important----

Mr. Regula. Training of employees?

Mr. Hurtgen. Training of employees. Yes.

And we are certain that we will be able to do that if funded as we have requested.

Chairman Truesdale then led the effort of the Board to reduce the inventory of cases. We set out for a goal for ourselves of the current year of deciding all representation cases over 20 months old and all unfair labor practice cases over 30 months old. We achieved 100 percent of that goal for the representation cases. We achieved 78 percent of that goal for the unfair labor practice cases. So we need to work a little more on the unfair labor practice cases, but I am confident that we will do that.

We are presently four on the Board--myself, Member Truesdale, Member Liebman, and Member Walsh. We are down one quart, if you will, in terms of Board members, and that does affect the case production from the Board's side. So we are in a transition time, and, of course, it is impossible to know as we sit here today how long that is going to take, but we are confident that this budget will provide us with the funds we need to do the work of this agency. And I and Mr. Truesdale, Mr. Higgins, and Mr. Darden will answer any of your questions that you have.

[The prepared statement follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

BOARD DECISIONS

Mr. Regula. Now, you have heard the old phrase, ``Justice delayed is justice denied,'' and so I assume that you make every effort to move these cases as quickly as possible.

Mr. Hurtgen. We do. We do.

Mr. Regula. I would be curious. Do you often or occasionally have a three-two vote? Does it become a political vote?

Mr. Hurtgen. I would not say often, but occasionally we have a three-two vote. We have perhaps a little more often a two-one vote.

Mr. Regula. Yes.

Mr. Hurtgen. The vast majority of our decisions are still three-zero. Almost all our cases are assigned to us on a blind rotating case basis, and the vast majority of them are decided by three of the five Board members. And, as I say, the vast majority of those go out three-zero.

Mr. Regula. So you do that to expedite cases, so three of you will act on a case and----

Mr. Hurtgen. Well, by law----

Mr. Regula [continuing]. It is a sub-panel?

Mr. Hurtgen. Exactly. It is like an appellate court, if you will.

Mr. Regula. Right. I understand.

Mr. Hurtgen. By law, only three of us need to decide a case.

Mr. Regula. Yes.

Mr. Hurtgen. And that is the most expeditious way to do it.

AGENCY WEBSITE

Mr. Regula. I notice that you maintain a website----

Mr. Hurtgen. We do.

Mr. Regula [continuing]. For employers, union members, individuals. I assume that this information on the website gives them some sense of the direction the Board might take, and would result in cases perhaps getting resolved after people evaluate the standards.

Mr. Hurtgen. Yes, or, hopefully more likely, prevent a problem from occurring, which might otherwise have occurred. We have been given a lot of positive remarks about our website, and it is something, of course, that we continue to adjust, but we provide a great deal of information to the public on our processes, on our personnel, on where we are located, and where you can find our decisions, our advice memoranda, our opinions, etc. So there is an awful lot that we do provide to the public, and it is our information, noted by the number of hits that we take to the website, that is being used extensively.

INFORMATION OFFICER PROGRAM

Mr. Higgins. I might add, Mr. Chairman, that last year we received over 170,000 contacts from members of the public to our regional offices. This is another way we serve the public, often without unfair labor practice charges being filed. In fact, of those 170,000 contacts, only about 5 percent of them resulted in a case being filed. In the rest of them the individual was told either he or she does not have a case or was directed to the proper agency.

So, in addition to all of the hits that we get on that website, there is an extraordinary number of contacts with the

public that do not end up becoming an NLRB case.

BODY OF ORIGINAL JURISDICTION

Mr. Regula. Procedurally, are you a body of original jurisdiction, or is there--if somebody has a complaint, do they come directly to the Board?

Mr. Hurtgen. The National Labor Relations Board is the original jurisdiction of all disputes pursuant to the National Labor Relations Act, and it is the fundamental broad, basic labor law of the Nation in respect of the employer/employee relations. Whether employees will be represented by unions or not, whether one or both parties are bargaining in good faith or not, whether unfair labor practices are committed or not, we are the agency of original jurisdiction. Our orders are final orders, and the parties may appeal them to a United States Court of Appeals, but otherwise they are final and binding.

APPEALING BOARD DECISIONS

Mr. Regula. I am curious. Do you get overturned very often?

Mr. Hurtgen. Well, I guess that depends on your perspective. I think historically the agency has not been overturned very often. I do not have those figures, but I suspect that the rate at which our decisions are upheld and/or overturned today would be very close to what it was ten, fifteen, twenty years ago. I do not know what that is, but I would--in my view, we get upheld in the vast majority of the cases.

Mr. Regula. Theoretically, it could go to the Supreme Court, I assume.

Mr. Hurtgen. It can. Certiorari can be sought from a court of appeals decision----

Mr. Regula. Right.

Mr. Hurtgen [continuing]. Involving our cases, and, again, this is simply anecdotal and in my own opinion, but I think a fair number of cases that originate with us do wind up with the Supreme Court.

Mr. Regula. Probably with big policy issues.

Mr. Hurtgen. That is correct, sir. Absolutely.

SALTING CASES

Mr. Regula. I know salting, and I do not know all the minutia that goes in that. It has been a controversial subject.

Mr. Hurtgen. Yes.

Mr. Regula. Have you dealt with that at all?

Mr. Hurtgen. We have. Salting, in the sense of a union having its paid members or officers seek employment at an employer----

Mr. Regula. Right.

Mr. Hurtgen [continuing]. For the purpose of organizing that employer, that is the definition that we work with. It is, of course, a lawful approach for a union to take, but it does yield and lead to claims of unfair labor practices, and we get a fair number of those cases. I could not tell you what the percentage is. It is less now than it was a few years ago, I

know that. But they do come to us on a regular basis.

BUDGET REQUEST

Mr. Regula. Do you think this budget will enable you to promptly deal with the complaints, the cases? Will you have adequate funding to----

Mr. Hurtgen. Yes.

Mr. Regula. Because it is important to people that their cases be adjudicated.

Mr. Hurtgen. We all feel that this budget will adequately allow us to continue the reduction of pending cases, to even more-expeditiously decide them, and, as I say, to pay the rent, to increase the salaries of employees, and to continue our training efforts.

IMPACT ANALYSIS

Mr. Regula. As I understand it, and I am new to this, but you place cases in three different categories; is that correct?

Mr. Higgins. The General Counsel does in terms of----

Mr. Regula. Is that for purposes to determine how quickly they will be heard?

Mr. Higgins. Yes. It is a procedure called ``impact analysis.''

Mr. Regula. Yes.

Mr. Higgins. All cases are initially filed in our regional offices. Those regional offices are under the supervision of the General Counsel.

Mr. Regula. Okay.

Mr. Higgins. At that stage, an assessment is made: is this a case that is a high priority? Is the impact on the public in this case great, moderate, or less? And then it is put in that category and a time target or goal assigned to the investigation of that case.

Mr. Regula. So that if it does have a wide public involvement, you would get it----

Mr. Higgins. It would get priority.

Mr. Regula [continuing]. Moved more expeditiously?

Mr. Higgins. It would be in the category of high priority cases. That is correct.

REGIONAL OFFICES/REGIONAL DIRECTORS

Mr. Regula. In terms of actually getting a case before you, the complainants would start at the regional office?

Mr. Higgins. That is correct.

Mr. Regula. How many of those do you have?

Mr. Higgins. In fact, nearly 90 percent of the cases that are filed with the NLRB never really see the light of a Washington day. They are investigated and either dismissed or settled in the regional offices by regional office staff.

Mr. Regula. So the regional office managers, if you will, or whatever term you use, have some ability to deal with these.

Mr. Higgins. Absolutely.

Mr. Regula. And then they are subject to appeal from that decision if the complainants want to get it up to your level?

Mr. Higgins. Right. The regional directors, who are the people you are talking about, the regional directors have delegated authority from the General Counsel to decide whether or not to prosecute an unfair labor practice.

Mr. Regula. Now, does your Board decide who will pick the employees, directors?

Mr. Hurtgen. Yes, we do.

Mr. Regula. So they are speaking, in a sense, on your behalf?

Mr. Hurtgen. They are. Absolutely. They are career members of the Senior Executive Service, and they are quite able and adept.

DECERTIFICATION

Mr. Regula. It mentions here in my notes that you overturned a precedent on what would be de-listing; am I correct? If a union wants to become a representative body, they have to have an election, which you supervise, if I understand it correctly.

Mr. Hurtgen. That is correct.

Mr. Regula. All right. And you certify the results, which determines whether or not they become the bargaining agent for that particular industry.

Mr. Hurtgen. Right.

Mr. Regula. What is the procedure for de-listing? Suppose the employer says, "Well, my sense is that a substantial majority of my employees have decided they do not want to belong to the union," what procedure--as I understand it, you have changed that somewhat.

Mr. Hurtgen. Very recently the Board issued a decision in a case named "Levitz," and it overturned prior Board authority upon the issue of when may an employer withdraw recognition based on a reasonable good faith showing that the employees----

Mr. Regula. Right.

Mr. Hurtgen [continuing]. No longer want the union. The Board held in this case that an employer could no longer withdraw recognition lawfully unless there was an actual loss of majority; that simply having a good faith belief that there was--or being uncertain as to whether there still was--was not sufficient to simply withdraw recognition; that if the employer were uncertain but did not know that there was an actual loss, what the employer should do is file a petition with our agency to have an election and have the employees vote to decide whether they still want the union or not.

That did overturn prior law, to some extent.

Mr. Regula. Well, it does seem reasonable that there ought to be a vote, because otherwise it is based on a hunch, if you will, or something approaching that for an employer to determine it.

Can an employee of a union--and most of this is for my edification, because all we deal with is the amount of money you are going to get.

Mr. Hurtgen. Right.

Mr. Regula. I am just curious.

Mr. Hurtgen. Happy to edify you.

Mr. Regula. Okay.

Mr. Hurtgen. Very few people ask us to do that.

Mr. Regula. Well, suppose an employee feels that--and it is the employee's sense that perhaps his colleagues do not want to pay dues, for example. Can an employee request an election for decertification?

Mr. Hurtgen. He can, but he needs to get some of his coworkers to support him in that effort.

Mr. Regula. Okay.

Mr. Hurtgen. And then he needs to come down to our region in his area and file a petition.

Mr. Regula. Okay.

Mr. Hurtgen. And if he does, if he comes in with something signed by some of his coworkers saying that they want to change whether they are represented or not, our agent in that office, our Board agent, will assist that person in going forward with their petition, if it is timely and that is what they want to do.

Mr. Regula. And your Board then could order or the regional officer could order an election?

Mr. Hurtgen. Absolutely.

Mr. Regula. And are the elections conducted at the expense of your Board?

Mr. Hurtgen. Yes. Right. We conduct the election with our agents and our equipment.

Mr. Regula. And there is no charge to either the employer or the union?

Mr. Hurtgen. Not at all.

Mr. Regula. Sounds like it is a fairly democratic procedure.

Mr. Hurtgen. Oh, it is very democratic. I mean, it is like any democracy, however--some of the issues that arise out of it get one side or the other claiming foul.

Mr. Regula. I have heard that happen even here.

Mr. Hurtgen. Which is where we come in.

Mr. Regula. Right. As Churchill said, it is better than whatever is second best.

Mr. Hurtgen. Yes.

Mr. Regula. It is true, too.

I think that covers the information I would be interested in.

As you point out in your budget, the increase just covers your fixed cost, essentially.

Mr. Hurtgen. Right.

CASEHANDLING TIME FRAME

Mr. Regula. What is the average time? An employee comes in and says, ``We want to have an election at Plant A,`` and the employer says, ``Well, I do not want it,`` but, of course, under the law they are eventually going to have it. What is the time frame?

Mr. Hurtgen. I am going to defer to General Counsel, but start by saying I think it is, after the petition--between the time of the petition being filed and the time the actual election occurs is 42, 43 days.

Mr. Higgins. About six weeks.

Mr. Regula. So it is fairly prompt?

Mr. Higgins. There is an enormous amount of pressure to get to that election quickly.

Mr. Regula. I can understand.

If an employee could file a complaint for themselves saying that, ``I feel that this employer is doing something that is an unfair labor practice,'' the employee would be the aggrieved party; am I correct?

Mr. Hurtgen. That is correct.

MERITORIOUS CASES

Mr. Regula. And you then adjudicate the merits of the case?

Mr. Hurtgen. General Counsel's personnel in the regional office will investigate the complaint.

Mr. Regula. Right.

Mr. Hurtgen. If they believe some merit is presented by the employee, they will try to settle it with the employer. And if they cannot settle it with the employer satisfactorily to us and to the employee, then a complaint will issue and a formal trial will then proceed, after which a decision is rendered. And if the employee or the employer does not like it or the General Counsel who prosecutes it does not like it, it is appealed to us.

Mr. Regula. When you say ``tried,'' it is not a jury, obviously?

Mr. Hurtgen. No. It is a bench trial.

Mr. Higgins. It is before an administrative law judge.

Mr. Regula. That is what I assumed.

Mr. Higgins. And the prosecutor, if you will, is an attorney working for the General Counsel in one of our regional offices.

Mr. Regula. And the aggrieved party can have their own counsel?

Mr. Higgins. The aggrieved party, as well as the charging party. So if the charging party--let us say it was a union--it could have its lawyer there, and the charged party or the respondent would have its lawyer there.

CASE INTAKE

Mr. Regula. How many cases a year get filed? I am not talking about votes or elections for representation, but just individuals that have---

Mr. Higgins. Somewhere between 27,000 and 30,000 unfair labor practice cases a year. And I might add that, of those 30,000 or so cases, about two-thirds of them are investigated and a decision is made not to prosecute. Of the remaining, let us say, 10,000 or so cases, the regional offices will settle about 95 percent of those.

So what goes to the Board is really the tip of the filing iceberg, if you will. The Agency really depends very much on voluntary compliance.

REPRESENTATION CASES

In representation cases, for example, the election cases, over 85 percent of those cases go to an election because the

employer and the union agree to the date, place, the time, and those eligible to vote. It is an agreement without the necessity of litigation.

So we depend very much on and we have had a very good record of obtaining voluntary compliance from employers and unions and from employees.

Mr. Regula. That is very interesting, and I assume that, where the employer is not sure whether it is a majority nor the union not sure, that this provides them a forum to ascertain.

Mr. Higgins. That is correct.

Mr. Regula. And I assume it is a secret ballot.

Mr. Higgins. Yes, sir. It is. It is a very carefully guarded process, too.

Mr. Regula. Well, it is----

Mr. Hurtgen. We do not use voting machines.

Mr. Regula. No chads? [Laughter.]

I understand Florida now has the best election law in the country.

Mr. Hurtgen. Well, they are going to have it if they do not.

Mr. Regula. The governor just signed it?

Mr. Hurtgen. Did he?

Mr. Regula. A complete redoing of their law.

I see none of my colleagues are here, so obviously you must be doing a pretty good job or you would have generated a little bit of greater degree of interest.

I appreciate your being here this morning. I do not have any further questions. We might have a few for the record, but we will submit those. I do not know if you have anything further you would like to offer us?

Mr. Hurtgen. No. We will answer questions, of course, Mr. Chairman. Otherwise, thank you very much.

Mr. Regula. Maybe some of my colleagues will have questions for the record. I do not know.

Mr. Hurtgen. Sure.

Mr. Regula. But we will submit those.

Mr. Hurtgen. Okay.

Mr. Regula. Well, thank you very much for coming.

Mr. Hurtgen. Thank you.

Mr. Higgins. Thank you, Mr. Chairman.

[The following questions were submitted to be answered for the record:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Thursday, May 24, 2001.

SOCIAL SECURITY ADMINISTRATION

WITNESSES

LARRY G. MASSANARI, ACTING COMMISSIONER OF SOCIAL SECURITY
PETER D. SPENCER, ACTING DEPUTY COMMISSIONER FOR FINANCE, ASSESSMENT
AND MANAGEMENT

Introduction of Witnesses

Mr. Regula. We will get started this morning and we will welcome Mr. Spencer and Mr. Massanari.

TELEPHONE ACCESS AT CANTON FIELD OFFICE

We are pleased to welcome you this morning on a topic that is important to people, because I know in my district office we get lots of calls from individuals concerned about their Social Security or their benefits, and I will say your agency has been very responsive. The base problem is not enough phone lines. And if I hear one criticism of the local agency, which is Canton, Ohio, it is that they just can't get through. There is only one line in reality. I think they have maybe two lines. One is using outgoing and incoming and they will try for maybe half a day and in final desperation they call our office, but still they need to get through. And this is important to people. The check doesn't get there on time or there is some type of mistake. I don't have to tell you to tell you that those checks, 39 million of them----

Mr. Massanari. More like 50.

Mr. Regula. 50 million.

Mr. Massanari. 50 million.

DIRECT DEPOSIT

Mr. Regula. And if they are not there the day they are supposed to be there our phone starts to ring. It is amazing. And of course I don't think there is a lot of enthusiasm for electronic deposits. They like to hold that check and see it. So I don't know what has been your success rate in getting people to go with electronic.

Mr. Massanari. Well, we have had a fair degree of success, Mr. Chairman, but we would like to achieve more. Right now in the title II program, which is the Old-Age, Survivors and Disability Program, about 79 percent of our beneficiaries are on direct deposit.

Mr. Regula. Really? I am amazed that you got that many.

Mr. Massanari. SSI is not that high. It is about 50 percent. But with new beneficiaries, as they come in and apply, of course we do encourage electronic funds transfer and we are running at about 80 percent. It is something that is not only good business from our standpoint, but we think it is good customer service.

Mr. Regula. What do you think? You save----

Mr. Massanari. Yes, it is substantial. An individual check, in terms of the processing of an individual check, costs about 42 cents. Electronic funds transfer is 2 cents. So we save 40 cents on every payment that is direct deposit.

Mr. Regula. Very interesting. And perhaps somewhat related to this, but one of the airlines that you use if you use e-mail instead of a paper ticket they give you 200 extra miles. So that is the same idea. And I suppose with SSI particularly you have people that just simply don't have a bank account or are not used to using a checking account.

Mr. Massanari. That is true in some cases, and in some

remote locations financial services aren't available to folks. So there are reasons that some people choose not to use direct deposit. But we think it is a much better choice for customers because it avoids checks being lost. It avoids theft of checks and we don't have to worry about check replacement if they have direct deposit.

Mr. Regula. Are you set up that on the first day of each month it goes on the account?

Mr. Massanari. Yes.

Mr. Massanari. Actually the electronic fund transfer transaction takes place before that, but it is normally credited on the first of the month for SSI and on the third of the month for most title II beneficiaries.

Mr. Regula. That would be Social Security?

Mr. Massanari. Social Security, yes.

Mr. Regula. Why the third?

Mr. Massanari. Up until May 1997, it had always been that way from time immemorial I think, from the beginning of the program. The check that you receive on the third of the month is actually the check for the prior month, so if you are getting a check or benefit for November you will receive that payment on the third of December.

BENEFICIARIES BY PROGRAM

Mr. Regula. Now you said you have 50 million checks, give or take. Is that in SSI?

Mr. Massanari. That is both.

Mr. Regula. What portion of that is social security?

Mr. Massanari. Dollarwise or numbers?

Mr. Regula. Numbers.

Mr. Massanari. For Retirement and Survivors Insurance, we have 39 million beneficiaries. We have 7 million Disability beneficiaries. So about 39 million are Old-Age and Survivors Insurance, and for SSI we have 6.4 million. We know that there are current beneficiaries who receive both a Social Security check and a Supplemental Security Income check.

OPENING STATEMENT

Mr. Regula. Okay. Well, your statement of course in the entirety will be made part of the record, and we welcome a summarization of it. I don't know how many committee members we will have, but if you would like to summarize.

Mr. Massanari. I will be happy to do that. Let me say, Mr. Chairman, at the outset I am extremely pleased to be here today to present the President's fiscal year 2002 budget request for the Social Security Administration (SSA). As you know, I am accompanied this morning by Mr. Pete Spencer. Mr. Spencer is our Acting Deputy Commissioner for Finance, Assessment and Management.

Our total budget request for fiscal year 2002 is \$490 billion. More than 98 percent of our request will be paid out as monthly benefit payments. However, most of this amount is permanently appropriated for Social Security benefits and therefore, of course, is not before the committee this morning. The appropriation requests that are before you total about \$40 billion.

They include the Office of the Inspector General, Supplemental Security Income, Special Benefits for Disabled Coal Miners known as Black Lung, Payments to the Social Security Trust Funds and our Limitation on Administrative Expenses, or what we refer to as our LAE account.

BLACK LUNG

Mr. Regula. If I could interrupt you. You mention Black Lung. That is a special situation, isn't it?

Mr. Massanari. Yes, it is. It is a special program.

Mr. Regula. I remember I was chairman of Interior and I think we have put the authorization to extend the program on the Interior bill last year that Senator Byrd was quite interested in.

Mr. Massanari. That is probably true. The program is really administered by the Department of Labor. Although---

Mr. Regula. Staff reminded me it was health insurance. But that would still---

Mr. Massanari. That is another provision that we did have some involvement in in terms of supporting that provision by providing information for health insurance coverage purposes.

Mr. Regula. But you don't administer the payments?

Mr. Massanari. No, we don't. In terms of Black Lung, most of the administrative work is done by the Department of Labor. They reimburse us for part of the work we do in terms of taking claims. They do the work after people are on the rolls. It is the Department of Labor that administers that part of it.

Mr. Regula. Thank you. Go ahead.

OPENING STATEMENT (CONTINUED)

Mr. Massanari. These five appropriations that I just mentioned cover our program administration costs and our general fund-financed programs. I am providing statements for the record regarding each of these requests. What I thought I would do if I might, Mr. Chairman, is to discuss several aspects of our administrative budget request. That request totals \$7.679 billion and it consists of \$7.574 billion for the Limitation on Administrative Expenses (LAE), \$75 million for the Office of the Inspector General, and \$30 million for research.

The LAE request represents an increase of 6.3 percent over the enacted level for 2001, and, as we have discussed earlier this week, this increase reflects the importance that the President places on our delivering high quality Social Security service to the American people.

Next year, in fiscal year 2002, our agency will pay monthly benefits, as I already mentioned, to more than 50 million people. We will also issue 16 million new and replacement Social Security cards. We will handle approximately 59 million calls to our 800-number. We will process more than 3 million retirement and survivors claims and more than 2 million initial claims for disability benefits, and we will issue 136 million Social Security Statements to covered workers.

The President's budget request will allow us to maintain stable staffing, which we will need to carry out those services that I have just outlined. This request will also allow us to

continue our efforts to safeguard the public's investment in Social Security. And finally, it will enable us to modernize our computer infrastructure.

What I would like to do is focus on three particular areas in this budget request, first, our expansion of electronic service delivery, then our anti-fraud and program integrity initiatives, and third, our future workforce challenges. Customer demand for online services of course is growing very rapidly. Last year, visitors to our website rose to an all-time level of 13.2 million. But this year, by the end of April, we had already exceeded that number. To meet this demand, we are increasing the electronic transactions that we are making available to the public, while at the same time emphasizing customer choice and customer convenience, whether customers visit us in our field offices or whether they call the 800-number or whether they visit the Internet site. We are also being attentive to customers' online privacy concerns as we seek to expand electronic service delivery.

800-NUMBER

Mr. Regula. If I could interrupt, you mention the 800-number. Could we advise our constituents if they can't get through to the local office to use the 800-number?

Mr. Massanari. We would encourage them at the outset to use the 800-number rather than call their local office. The point of entry, the gateway into Social Security, is to call the 800-number. In fact, we discourage people from calling the local office because we believe they can get better service through the 800-number, and get a much higher level of access.

Mr. Regula. We will so advise them.

Mr. Massanari. One of the things we will be testing in 2002, one of the things that is in our budget request, is to begin piloting an approach when the customer calls into the local office and they get a busy signal, we want to be able to transfer them to the 800-number if they choose to avail themselves of that service. So rather than hang up and redial, we will forward it.

Mr. Regula. In your judgment, the 800-number is usually accessible?

Mr. Massanari. The objective we have set based upon this budget is that 92 percent of the time when you make a call, you will be able to access us within 5 minutes.

Mr. Regula. We want to be sure we have enough money for that.

Mr. Massanari. Yes. Thank you. That is critical for us to be able to carry that out.

Mr. Regula. It is critical for our office, too.

OPENING STATEMENT (CONTINUED)

Mr. Massanari. Returning to my discussion of electronic service delivery, our first major online business process where we are actually carrying out a transaction with the public was brought up earlier this fiscal year. We call it the Internet Social Security Benefit Application service. It allows customers to file their claims for retirement benefits on the

Internet.

We have also, within the past several weeks, brought up a facility which enables both wives and husbands to file for spouse's benefits online on the Internet site. And very soon beneficiaries will be able to review their account status, change their address, change their direct deposit information, and also inquire about missing checks online at our Internet site. Our vision is to offer comprehensive Internet services with the very best available privacy and security safeguards. Not only does electronic service delivery benefit our customers, but as SSA workloads increase, greater customer access to online transactions will help us absorb some of this rising workload that we are anticipating over the coming decades. I especially believe that it is absolutely critical that we continue to move ahead with this very important service if we are going to continue to improve service delivery to the American people.

A second area of significance and of emphasis for us at Social Security is our anti-fraud and program integrity activity. With this budget request, we will be able to vigorously pursue debt, strengthen our representative payee program, complete our multi-year Continuing Disability Review plan and, by the end of fiscal year 2002, eliminate that backlog.

Continuing disability reviews or, as we call them, CDRs are vital to ensuring disability program integrity. They help determine whether beneficiaries continue to be entitled to benefits because of medical conditions. To remain current in future years, we will need to continue processing a comparable number of CDRs. We expect to obligate about \$633 million in fiscal year 2002 to process these periodic CDRs. Over the next decade, we estimate an average savings of \$7 for every \$1 that we spend in processing CDRs--a significant return on investment.

A third area of emphasis is one that I personally champion, and that is valuing and investing in our most precious resources at Social Security--our employees. During my 35 years with SSA, I have seen firsthand the dedication and the talent of our workforce. However, the challenge that we face is that with the coming decade, we will face a tremendous loss of expertise and a tremendous loss of institutional knowledge as a retirement wave looms before us. More than half of our current workforce, in fact, may be gone by the year 2010. This loss of experienced employees will coincide with a dramatic increase in our workloads, as the baby boom generation reaches their peak years of disability risk and then begins to retire. We have, therefore, developed a long-range vision for our agency to meet this actual challenge and to avoid deterioration in public service.

COLLEGE RECRUITMENT

Mr. Regula. Curious, do you recruit at colleges like the industry does?

Mr. Massanari. Yes, we do. We have very active college recruitment programs, although one of the things we have found in the past few years is that it is becoming increasingly

difficult to recruit young people out of college. We find ourselves literally recruiting all age levels. We are also recruiting folks in a second career.

Mr. Regula. What would the average salary be for an entry level person?

Mr. Massanari. I would have to defer to my staff. \$30 thousand-plus.

Mr. Spencer. We can get you that number for the record.

Mr. Massanari. Between \$24 thousand and \$30 thousand, depending on what grade level they actually start at, but we will get you that information.

[The information follows:]

Average Entry-Level Salary

The average salary of a college graduate entering the SSA workforce, typically at GS-5 or GS-7, ranges from \$23,600 to \$31,800. The salary rates vary around the country because of differing locality pay amounts.

Mr. Regula. That will be a factor because college graduates today have a little more in the way of options than has been historically true and we are hearing a shortage of teachers in this committee, a shortage of any number of different professions, and so that becomes a significant factor, and I think you are right, because I know our local office they are probably a little bit short-handed because there is going to be a wave of retirement.

Mr. Spencer. There is a number here, Larry. \$24,192 would be the starting salary in the D.C. Area. We have locality pay--

--

Mr. Regula. But for D.C. that is not excessive.

Mr. Spencer. GS-7 would be \$29,966.

Mr. Regula. Okay.

OPENING STATEMENT (CONTINUED)

Mr. Massanari. I wanted to summarize just one other SSA appropriation request that is before you this morning, Mr. Chairman. That is the \$75 million budget request for our Office of the Inspector General (OIG). That represents an increase for the OIG of 8 percent. We have found since becoming an independent agency that a strong OIG, working closely with our employees in the local offices, is truly the most effective means we have to detect and prevent fraud and abuse. This funding level, this 8 percent increase, will enable the OIG to maintain current staffing levels, and it will also enable them to increase their investigative resources on two key initiatives: combating disability fraud and also combating Social Security number misuse and identity fraud.

In conclusion, I am very proud to say that for 65 years, SSA has served our nation well in providing economic security to the American people. We at SSA recognize our continuing obligation to be responsible and careful stewards of the programs we administer. We also recognize the challenges that we face in managing for results in the decade ahead. The fiscal year 2002 administrative budget request of \$7.679 billion will

provide the resources that we believe we need to help respond to these challenges. The increase in our administrative budget will support stable staffing and it will also enable us to maintain performance in key areas of service delivery.

Mr. Chairman, I want to thank you again for the opportunity to present SSA's budget request for the next fiscal year. With your approval, I will submit for the record a full written testimony discussing the appropriation requests in full.

Mr. Regula. Without objection, that will be made a part of the record.

[The information follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Mr. Massanari. Certainly, I will be very pleased to answer any questions you might have.

DISABILITY STANDARDS

Mr. Regula. I guess one of the areas we hear about is disability, whether it is rejected. What are your standards for allowing it? I know we went through a period some years ago and it got, I think, a little bit lax in the sense that there is perhaps an excessive approval for disability and then perhaps the pendulum swung a little bit the other way, and this is based on our own office experience, because every week when I go home I am signing a letter or letters to local judges to take good looks, et cetera. What kind of standards do you have?

Mr. Massanari. The standard itself has not changed. It has been in the statute for many, many years. A person's impairment must be expected to result in death or to last at least 12 months, and it must prevent them from engaging in--the term we use--"substantial gainful activity." What that means is a worker cannot work in any type of job, not just the job that they held at the time that they became disabled. So it is a very rigorous standard. Through our quality assurance programs and our ongoing review of policy, we try to ensure those standards don't change--that we continue to meet the intent of Congress.

CONTINUING DISABILITY REVIEWS

Mr. Regula. How often do you review a case because maybe the individual gets some improvement in his physical condition?

Mr. Massanari. Those are continuing disability reviews, CDRs, that I mentioned earlier. We conduct CDRs depending on the nature of the apparent disability. We profile those cases where medical improvement is possible. We review those at least every 3 years and that is why that whole review process becomes so important--to be sure that we are making proper payments to persons who continue to be impaired.

TREASURY SECURITIES AND PRIVATIZATION

Mr. Regula. Are all of our reserves in treasury bills?

Mr. Massanari. Yes, they are all in treasury securities, yes.

Mr. Regula. I won't pursue with you the possibility of privatizing a portion because I think that is a whole new subject, I think.

Mr. Massanari. As you know, the President has indicated that one of the principles that will guide the Commission's work is that the trust funds would not be invested in private equities.

PILOTING ROLLOVER OF FIELD OFFICE PHONE LINES TO 800-NUMBER

Mr. Regula. I like your idea on the rollover to the 800-number because, well, all of us are familiar with it, a lot of people aren't used to using 800-numbers and if it is an automatic rollover that will reduce calls back to the congressional offices.

Mr. Massanari. We will begin piloting that and we will certainly report back to you, Mr. Chairman, on our success with that task.

PROGRAM INTEGRITY

Mr. Regula. One of the things I hear is fraud. You get these egregious examples that usually make the press, and I assume you diligently try to pursue to ensure that one is not cashing deceased people's checks.

Mr. Massanari. We take very seriously our stewardship responsibilities and our responsibilities for program integrity. In fact, in this budget request \$1.7 billion, almost \$1 in every \$4 in this request, is intended for program integrity. And we have found that perhaps the most effective tool for detecting fraud and for preventing fraud is the Office of the Inspector General and its agents working in very close relationship with our local folks.

Mr. Regula. If you find it, do you prosecute?

Mr. Massanari. Very aggressively.

Mr. Regula. That is often the best deterrent.

Mr. Massanari. Our Office of the Inspector General has been very aggressive in pursuing fraud and we are seeing greater and greater success as we work with the U.S. Attorneys around the country in pursuing it.

One of the other things that we do, as a matter of course, is we very actively publicize prosecution to assure that there is a deterrent.

RETURN ON TRUST FUND INVESTMENTS

Mr. Regula. That is a good idea. What is your average return on your investments?

Mr. Massanari. In terms of----

Mr. Regula. Two percent, 3 percent.

Mr. Massanari. I am sorry? Investments in?

Mr. Regula. They are in treasury bills, but there are various kinds.

Mr. Massanari. It depends. I think they are running now around 7 percent, but we can get you that number for the

record.

[The information follows:]

Annual Rate of Return

By law, assets of the OASI and DI Trust Fund are invested in Treasury Special Issue long-term bonds and short-term certificates of indebtedness available only to the Social Security trust funds.

The effective annual rate of interest earned during calendar year 2000 was 6.9% for the assets of the OASI Trust Fund, and 6.6% for the assets of the DI Trust Fund.

Mr. Regula. So you can go to long terms obviously.

Mr. Massanari. Oh, yes. They are special issue securities.

TRUST FUND SOLVENCY

Mr. Regula. Do you have a number where it is a crossover, that the inflow is less than the outflow?

Mr. Massanari. Yes.

Mr. Regula. In terms of calendar number?

Mr. Massanari. For 2002, in fact it is included in our budget request for 2002, trust fund income will definitely exceed outlays by about \$175 billion. And by the end of fiscal year 2002, the reserves will be up to \$1.34 trillion. We are continuing to build that reserve each year.

Mr. Regula. Is there any point out, 2020 or 2030?

Mr. Massanari. 2016. I can step you through that. Trust fund income will exceed expenditures until the year 2016, and at that point we will begin to draw on the interest that we will receive on those securities and we will begin to use that along with the income. Then, 2025 is the year we begin to draw down the assets. The year 2038 is the point at which the trust fund is no longer fully solvent, and we will only be able to pay about 72 cents on the dollar. That is the key date. Although what is interesting is that the year keeps moving into the future. Last year, according to the Trustees' report, the year was 2037.

Mr. Regula. What pushes it ahead, the demographics?

Mr. Massanari. Demographics and the economy. The growth in the economy has had a very, very significant impact in the last several years.

Mr. Regula. In the short term inflation has been beneficial because it increases the flow of revenues?

Mr. Massanari. Yes. And when lots of folks are working and employment rates are high, of course, the income into the trust fund extends its solvency.

INCREASING BENEFICIARY ROLLS

Mr. Regula. Right. Well, we touched on the workload and I think you are very aware of the need to recruit people and to meet the need.

What is the increase that you experience each year in beneficiaries?

Mr. Massanari. The greatest growth right now is in our

disability program. In terms of intake, that is the number of claims we receive, we are experiencing a growth rate right now of about 3 percent a year over the next decade. This is very worrisome. This is the enormous challenge that we face. The growth in disability receipts between now and the end of the decade will be about 32 percent. In the Retirement and Survivors Programs, beneficiary growth will be about 15 percent, and in the Supplemental Security Income blind and disabled program about 15 percent. So by the end of the decade our beneficiary rolls will increase more than 17 percent. The largest percentage will be disability, literally 43 percent growth in our disability rolls. That doesn't only mean at the front of the process. There is also all the activity at the back-end, the program integrity work--those continuing disability reviews that will have to be done.

Mr. Regula. Why would you think that would happen?

Mr. Massanari. It is largely the result of the aging of the baby boomers, that large cohort of 76 million people. In the next 8 to 10 years they are reaching their highest disability-prone years and, of course, they will begin retiring in the year 2008. In the year 2008 the first group will become age 62, turn 62 years old. So it is really that cohort moving through the population.

SOCIAL SECURITY COMMISSION AND ADVISORY BOARD

Mr. Regula. The President just named a bipartisan Commission on Social Security. How does this differ from the Social Security Advisory Board? It seems like there is an overlap of function there.

Mr. Massanari. Well, the Advisory Board is a particular group that meets and provides advice not only to the Congress and the Administration, but even to SSA in a wide variety of areas including both program as well as operational. The purpose of the Commission has been very well defined by the President. President Bush has asked the 16-member Commission to make a series of recommendations to him on modernizing the program and restoring long-term fiscal stability to the program.

GOVERNMENT PENSION OFFSET

Mr. Regula. Do you get into the offset problem of where a spouse is getting benefits by virtue of being a spouse and has a history of her own in Social Security, but has a history, let's say, in the Ohio retirement system? Does that offset the amount you pay under spousal benefits?

Mr. Massanari. It can, under the government pension offset.

Mr. Regula. Yes.

Mr. Massanari. We do get involved in that, yes.

Mr. Regula. That creates some unhappiness, I will tell you that.

Mr. Massanari. It creates considerable unhappiness. It creates a large measure of unhappiness in this location in Washington, D.C.

Mr. Regula. Yes. Well, we have in Ohio because we have a very extensive retirement system--you are talking about all

public retirement system, teachers, policemen. The offset would be any type of governmental benefits.

Mr. Massanari. It depends whether they are also covered by Social Security.

Mr. Regula. Yes, if they have a spousal benefit then and not their own history.

Now, just a clarification. If the spouse has his or her own Social Security maybe at let's say 10 years of Social Security coverage, that would not be impacted by the other government pension, would it?

Mr. Massanari. No, it is not affected by government pension offset, but it may be affected by the windfall elimination provision. I'll provide additional information for the record.

[The information follows:]

Explanation of GPO and WEP

The government pension offset (GPO) may reduce or eliminate the Social Security benefit payable to a spouse if the spouse receives a pension based on his or her own employment that was not covered under Social Security from the Federal Government, a State, or a political subdivision of a State. A person's own Social Security benefits are not affected by GPO. However, they may be affected by the windfall elimination provision (WEP). WEP may affect the worker's retirement or disability benefit if the worker also is entitled to a pension based on work not covered by Social Security. In that case, the formula used to figure the Social Security benefit amount is modified, yielding a lower Social Security benefit.

Mr. Regula. Mr. Kennedy, do you have any questions?

QUALIFYING AND REQUALIFYING INDIVIDUALS FOR SSI DISABILITY

Mr. Kennedy. Please. Thank you. Welcome. I am really facing a lot of issues back home in Rhode Island with regards to the incredible caseload that your workers are undergoing, and also how backwards the policy of the SSI administration is in terms of trying to requalify people, and how you are misappropriating--and maybe it is because it is congressional statute directed, it is not you, but this needs to be corrected on the statute side--but you are misappropriating all these funds that should otherwise go into qualifying people for SSI that are certainly eligible for SSI. Instead, you are wasting a lot of money requalifying people because of this hysteria in Congress about the cheating and fraud.

If you can be qualified initially for being disabled, it is a protracted process, and a very high bar to reach in the first place. It is hard for me to think that you are going to be miraculously nondisabled again. And yet we spend so much time trying to requalify these people when that money could be better spent qualifying people who now wait over a year to be qualified. In some cases these people are in desperate situations and it is unconscionable that they are put through the bureaucratic process of delay, deny, deny, deny, deny, and then have to get lawyers to sue SSA so that they can get some benefits, when you and I both know if any one of them came into this room you could

tell right away that they were disabled.

Now, I spend a better part of my time back in my District just trying to get people through the bureaucratic process of getting them on SSI, and it is wrong and it is a major, major problem. I would like you to answer for me whether you agree that it is a major problem, that this is a huge misdirection of funds, and that the caseload is way too high, and whether you agree with me that people are waiting way too long and are put through too much bureaucratic process in order to qualify for disability at SSI.

Mr. Massanari. Let me perhaps pick first on your reference to two program integrity workloads which do represent a significant challenge for the agency in terms of the size of those workloads. The first refers to the reviews that we do to determine whether or not individuals continue to be disabled. They are called continuing disability reviews and they are, in fact, required by statute. They are conducted on a periodic basis and we do find that for large numbers of people who are on the disability rolls, their medical condition does improve. You have to be able to show medical improvement before individuals are removed from the rolls. We had talked about that earlier.

Mr. Kennedy. What percentage are removed from the rolls?

Mr. Massanari. I have to commend the Congress for this, the monies that have been devoted to continuing disability reviews (CDRs) really aren't diverted from processing initial claims because when we undertook the 7-year plan starting in 1996, the Congress provided an adjustment to the discretionary cap and that is how we have funded these CDRs.

Mr. Kennedy. But you would agree that when you are looking at caseloads of people waiting over a year and a half to get disability who have to go through the protracted process of being qualified, and you and I know what we are talking about. Anyone who has been to any one of the Social Security offices and have seen what people go through in order to get qualified for disability should be outraged. The notion that this Congress would raise the cap so we can requalify people who have already been disabled instead of putting money into trying to expedite the process of qualifying people is unconscionable.

I am not arguing with you the caps were raised and the discretionary funds were appropriated for that purpose alone and weren't taken out of existing purposes. But in a sense they were taken out of them because they should be going to caseload problems, not requalifying people. In a perfect world, yes, I would like to have people requalified. But when you are looking at the dire situation right now with caseloads as high as they are, why spend all this time and energy requalifying people when you are having the caseloads that you have just qualifying people in the first place.

Mr. Massanari. It is a matter of balancing two missions of this agency, one of which, obviously, is to provide good, sound customer service to folks who apply for benefits, but we also have a stewardship responsibility to ensure that we are making proper payment on behalf of the taxpayers.

Mr. Kennedy. Then answer the question, how many people do you get----

Mr. Massanari. Let me give you a sense over the past 7 years. For every one dollar we have invested in carrying out those continuing disability reviews, we have gotten a return of \$10 in benefit savings. So we can get for the record the actual number who have been removed from the rolls, but in terms of the return on dollars spent it is running \$10 to \$1.

[The information follows:]

CDR Cessation Rates

The following table provides information on estimated ultimate cessations (after all appeals) and the estimated savings resulting from these cessations, for all CDRs processed in fiscal years 1996 through 1999. While the figures shown in the table represent the total overall impact of the CDR work done by SSA, many of these agency-wide results such as cessation rates and benefit-to-cost ratios will vary by (1) program (OASDI vs. SSI), (2) type of beneficiary within program, and (3) likelihood of medical improvement identified at the time of a prior disability decision. Changes from year-to-year in the distribution of CDRs processed by these categories will result in a corresponding variation in these yearly outcomes. The overall cessation rate and benefit-to-cost ratio is expected to decline in the future since cases where there is a high likelihood of medical improvement are expected to make up a smaller percentage of total CDRs processed.

ESTIMATED CESSATIONS AND SAVINGS FOR CDRs PROCESSED FISCAL YEARS 1996-1999, AS REPORTED IN THE ANNUAL REPORTS OF THE SOCIAL SECURITY ADMINISTRATION, FISCAL YEARS 1996 THROUGH 1999. [Numbers in thousands, amounts in millions of dollars]

Fiscal year of initial decision	CDRs processed		Initial cessations
	Total	Full medical reviews	
1996.....	498	202	41.9
1997.....	690	368	81.3
1998.....	1,392	607	113.3
1999.....	1,703	718	131.5

\1\ These counts reflect only CDRs initiated as part of SSA's centralized scheduling process for ultimate cessations for the relatively small number of full medical reviews initiated. Therefore, data for these "other" full medical reviews are included with the total reviews processed and estimated cessations.

\2\ Present value of OASDI, SSI, Medicare and Medicaid savings as of the end of specified year.

DISABILITY DETERMINATION PROCESS

Mr. Kennedy. Explain the proposals of qualifying people and answer me the question I initially asked you about the protracted delay and incredible bar that people have to reach

in order to get qualified for disability in the first place.

Mr. Massanari. Well, the standard for disability in this program of course is very rigorous. It does require that a person have an impairment that is expected to result in death or to last for at least a year, and the impairment must prevent a person from doing any type of work. It is a rigorous standard.

Mr. Kennedy. That is pretty rigorous, this standard. Explain this standard to the chairman.

Mr. Regula. Well, we went through that, but go ahead.

Mr. Kennedy. No, you might not understand it, the notion that we have people that are meeting this standard that can't get it and are dying. I mean, this is life and death for my constituents. I will give you the names of people who have died waiting to get on SSI who you and I both know should qualify for it tomorrow, who have to hire lawyers and by the time they get through the process, which is a year and a half, 2 years, they are dead.

Mr. Massanari. There are various stages to this process, as you know, Mr. Kennedy. And in the State of Rhode Island right now I think at the front-end of the process we are probably allowing about 40 percent, and there are multiple stages of appeal beyond that. You are right, it is a fairly lengthy process because of the medical evidence that has to be assembled in support of the claim. The growth in the disability intake right now is running about 3 percent a year. That is why in our budget request we are requesting an additional 400 workyears for the State disability units in order to better equip them to process disability claims.

Mr. Kennedy. I will support that. In fact, I will support even more than that for our local offices to qualify people for SSI. It is a major problem, and people are really being hurt because it is not expedited.

Tell me, you said it is a rigorous process. Why does it have to take so long? You know, if I have Kathy Hinckley come in here, she qualifies, why does she have to wait a year and a half before she gets her check?

Mr. Massanari. After the decision is made?

Mr. Kennedy. When she walks in here why does it take a year and a half to qualify her as disabled when she could walk in this door and we could have a physician who may be qualified to examine her and discuss her conditions and say this woman clearly meets the criteria? Why does she then have to wait a year and a half?

Mr. Massanari. Well, if a decision is made at the initial stage that a person is disabled, it is not taking a year. I have here the data for the State of Rhode Island. For a person applying for Disability Insurance benefits, that is Social Security disability benefits, on average, from the point their claim is received in the State Disability Determination office until the State makes its final decision for payment, it is running 82 days. SSI is running a little longer.

Mr. Kennedy. SSI is what I am talking about.

Mr. Massanari. It is running 90 days, just over 3 months.

Mr. Kennedy. You will have to give me the figures on how many, because obviously I am getting at the percentage that are not getting it in 3 months. What percentage do not get it in 3

months?

Mr. Massanari. I am giving you a mean or an average processing time. We can certainly get you some information for the record.

[The information follows:]

Average Processing Time

In fiscal year (FY) 2001 through April 2001, the average overall processing time for Supplemental Security Income (SSI) blind and disabled claims, from the point at which the claim is filed in the local Social Security office until the final payment decision is issued, is running at about 134 days in the State of Rhode Island, including 99 days for processing in the State Disability Determination Services (DDS). The difference between DDS processing time and overall processing time is largely due to requirements for development of nondisability factors of entitlement including income, resources, and living arrangements. For FY 2001 through April, just over 40 percent of initial SSI disability claims in Rhode Island have been processed to completion, including development of disability and nondisability factors of entitlement, within 90 days of filing. Therefore, this year, about 60 percent of these initial claims have taken longer than 90 days to process.

Mr. Kennedy. I am not here to criticize you. I am here to advocate on behalf of my constituents. Your agency is charged with trying to get these people on SSI that qualify for it. I just want to make sure you get your job done as expeditiously as possible because we have peoples' lives depending on it. I am not trying to browbeat you on this. I am just trying to get through the bureaucracy so people can get what they need right away.

RHODE ISLAND'S ALLOWANCE RATE

Mr. Massanari. I understand, Mr. Kennedy. It is an issue that is of significant concern to us. It is clearly the greatest challenge in terms of our claims processing; that is, the disability claims. Let me just share with you one other number that might be helpful. So far this year through the end of April, what we call the allowance rate, which means the percentage of cases that are approved or where folks are found to be disabled, within the State disability unit in Rhode Island, is running 48 percent, which is higher or a little higher than the national average. So about 48 percent of the folks who file are allowed or approved through the State process, and those are what I have talked about taking 3 months. That is about how long it is taking at least for those folks.

Mr. Regula. We have a vote. Do you want to come back and continue your questions?

Mr. Kennedy. Yes, that would be nice.

Mr. Regula. Okay. We will recess for about 10 minutes.

Mr. Kennedy. Great. Thank you, Mr. Chairman.

[Recess.]

FIELD OFFICES WORKING WITH CONGRESSIONAL STAFF

Mr. Kennedy. I know the chairman is not here, but I don't think he needs to hear me.

I wanted to thank you for putting up with my critique of your SSI process because I just feel for a lot of my constituents who are in this difficult situation, and I look forward to having my office working close with your office. I know they already work closely with you. But can you do anything to facilitate the congressional office working closer with your branch Social Security offices--are there things that you are doing to try to facilitate that?

Mr. Massanari. We will certainly do that. Our hope is that in each case our local offices are working closely in any supportive way with local congressional staff.

ESTIMATED RETURN ON STOCK MARKET INVESTMENTS

Mr. Kennedy. Right. With the recent appointment of the Social Security Privatization Commission, the issue of individual accounts is obviously front and center in the Social Security debate. In evaluating reform proposals, the Office of the Chief Actuary has generally assumed a 7 percent real return for investment in stocks. According to an analysis by MIT economist Peter Diamond, however, the current high stock prices and the Office of Chief Actuary's own projections of the GDP growth are inconsistent with the 7 percent return. For a 7 percent return to materialize the ratio of stock value to GDP would have to increase more than twentyfold in the next 75 years. Either the stock market is overvalued and would have to fall sharply before then growing at 7 percent of GDP or the market is correctly valued at the 7 percent estimate, should be revised downward or some combination of the two. Is the administration intending to lower its estimate on the return of stock investments so it comports with your economic growth projections?

Mr. Massanari. Our Office of the Actuary, our Chief Actuary, will be working very closely with the members of the Commission in providing analytical support. I can't say right now what the outcomes will be in terms of any estimates that they might provide. Our Office of the Actuary will be doing its analytical work, but I can't comment specifically. I simply do not know what will happen in terms of those estimates.

PRESIDENT'S PLAN FOR INDIVIDUAL ACCOUNTS

Mr. Kennedy. The President has obviously made it clear that he wants to reduce Social Security's guaranteed benefits and place that portion of Social Security with a nonguaranteed, carved out individual account program. We know that the administrative costs associated with individual accounts significantly exceed the cost of maintaining the trust fund currently, which are under 1 percent of annual revenues or benefits. Moreover, we know that many people are not well-prepared to make investment decisions. Poll results show that more than half of Americans do not know the difference between stocks and bonds, and of course individual accounts do not

guarantee benefits. The urge to increase the return on the trust fund is certainly understandable and warranted, but if that were the primary goal behind the President's plan, the trust fund should invest in stocks directly using an independent board that was restricted to index funds that are run by private managers paralleling what is currently being done for Federal civil servants. Not only would the administrative costs be significantly lower, but the risks of these more volatile investments would be pooled.

Given these facts, can you explain how the President's plan for individual accounts looks at these economic realities when it seems that it may be entirely different by ideology and is not the main purpose of individual accounts (like the tax cut), to do away with redistributive effects so that those who are better off can keep more of their wealth for themselves?

Mr. Massanari. I think the issues that you raise, Mr. Kennedy, are issues that the Commission itself will be taking up and assessing. I would say, though, that when the President outlined the series of six principles that would guide the work of the Commission he did indicate that one of the considerations was personal accounts--voluntary, individually controlled accounts. But there is no constraint imposed upon the Commission to either look at those accounts as carve-outs or adds-ons, and I think that was very carefully done.

So I think the Commission will need to work through that whole question of what form might those personal or individual accounts take.

Mr. Kennedy. Well, I am in favor of them being add-ons. I am in support of legislation much like what Mr. Blair and Great Britain has done in terms of the baby bonds, where individuals at birth are given a set of money, like we have the Federal Employees Retirement System. I contribute, the Federal Government matches it, but we do it on a sliding scale, much like the Earned Income Tax Credit, so those with the lowest income can get a savings account they can use for lifetime needs, not just retirement needs and also can get an education in terms of the importance of our investment in stocks and our economy in general. But that should not replace, obviously, the insurance program that we currently have known as Social Security. I just wanted to use this opportunity to say if we are going to do index funds we ought to do it like the former Administration decided on doing, and that is open it up enough to invest in index funds that can be managed by your Administration, but not have the carve-outs, but have the benefit of the increased return of the stock market, just do not have it in individual accounts where people won't know what to do with them, and the cost of administering those accounts will be prohibitive.

Mr. Massanari. I believe the bipartisan Commission will look at a wide range of options and will also be looking at systems, including the system in the United Kingdom, as they go about their work.

Mr. Kennedy. Great. Well, I thank you for your answers, and I look forward to working with your local offices and yourself in what you are trying to do.

Mr. Massanari. Thank you, Mr. Kennedy. I appreciate that.

Mr. Regula. Thank you for coming. We have, I think, covered a pretty wide area this morning and on balance your administration does a good job. Obviously with 50 million clients you are going to have a few people that probably won't agree with everything that is done. But our offices are good lightning rods as to whether it is working or whether it is not working.

RECAP OF PLAN TO ROLLOVER CALLS TO 800-NUMBER

You weren't here, I don't think. Getting phone calls through is always a tough problem and they are contemplating putting an automatic rollover, so if your constituent or mine calls the local office it automatically rolls over to the 800-number, because that is one of the points of distress we are going to run into.

BACKLOG OF HEARINGS

Just a couple of things. The backlog, what type of claims are backlogged? Any particular group of claims that tend to be backlogged?

Mr. Massanari. Well, the most serious backlogs, as Mr. Kennedy suggested, exist in our disability process right now, particularly in our hearing offices, and that is an area that we are concerned about and that we are dealing with.

Mr. Regula. One of the problems of course is somebody is disabled and therefore their paycheck stops and they have maybe a 3-month gap. They do get the money back if their claim is allowed in a lump, most of which the lawyers get, but in any event they say to me or my staff, well, what do we do in the meantime, we do not have any reserves to pay our bills with? And I guess the only answer for that is for you to, as Mr. Kennedy is suggesting, expedite these claims as much as possible.

Mr. Massanari. That is why we are so concerned, Mr. Chairman, about the backlogs in the hearing office and we are trying to attack that issue. There are times of course when we will refer applicants who find themselves in the situation that you described--refer them to the State and local organizations.

Mr. Regula. I assume United Way probably does help them out?

Mr. Massanari. Some States still have general assistance that can provide some money to help carry them over.

Mr. Regula. Okay. Any further questions, Mr. Kennedy?

HELPING WITH THE HOMELESS ISSUE IN PROVIDENCE

Mr. Kennedy. No. I just want to make an observation. We had a situation where Travellers Aid is doing a lot of work and it is obviously a result of the deinstitutionalization of the mentally ill and there is really a desperate situation with homeless people, and we are trying to deal with it in Providence right now, and obviously if your office can be of any assistance in helping us figure out a good system to coordinate all the services that may be out there for them,

that would be very helpful.

Mr. Massanari. We will talk to our folks in the regional office in Boston to see if we can't provide some assistance and work together to deal with this issue.

Mr. Kennedy. Great. Thank you.

Mr. Regula. Well, thank you very much for coming.

Mr. Massanari. Thank you, Mr. Chairman.

Mr. Spencer. Thank you, Mr. Chairman.

Mr. Regula. It has been a productive hearing. Thank you.

[Whereupon, at 11:10 a.m., the subcommittee was adjourned.]

[The following questions were submitted to be answered for the record:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

W I T N E S S E S

	Page
Coonrod, R.T.....	135
Darden, Harding, Jr.....	229
Higgins, J.E., Jr.....	229
Hurtgen, P.J.....	229
Kever, J.F.....	11
Massanari, L.G.....	519
Sheppard, Beverly.....	1
Speakman, V.M., Jr.....	11
Spencer, P.D.....	519
Thomas, C.T.....	11
Truesdale, J.C.....	229
Wilensky, G.R.....	701

I N D E X

	Page
Advance Appropriations.....	157, 165, 185
Advance Appropriation: History and Justification.....	171
Appropriation History.....	170
Biography of Robert T. Coonrod.....	139
CPB's Appropriation Request and Justification, FY 2002 and FY 2004.....	194
Digital:	
Conversion.....	184
Funding.....	156, 164, 168
Television.....	155
Digital Conversion.....	184
Digital Funding.....	156, 164, 168
Digital Television.....	155
Distribution of Funds.....	166
Editorial Control.....	156
News/Editorial.....	163

Educational Programming.....	168
ITVS.....	167
Native American Programming.....	158
News/Editorial.....	163
Programming:	
Educational.....	168
Native American.....	158
News.....	163
Public Radio.....	186
Ready to Learn.....	161, 172, 186
Statement of Robert T. Coonrod.....	140
Statement of Kevin Klose.....	188
Statutory Formula.....	160
Distribution of Funds.....	166
TeacherLine.....	177
Underwriting.....	160

National Labor Relations Board

Agency Website.....	238
Appealing Board Decisions.....	239
Board Decisions.....	238
Body of Original Jurisdiction.....	239
Budget Request.....	240
Casehandling Time Frame.....	242
Case Intake.....	243
Chairman's Opening Statement.....	230
Chairman's Prepared Statement.....	231
Administrative Law Judges.....	235
Board Members' Staffs.....	233
Conclusion.....	236
Justification for Budget Request.....	236
NLRB's Statutory Responsibilities and Role.....	232
Decertification.....	241
Impact Analysis.....	240
Information Officer Program.....	238
Introduction of Witnesses.....	229
Meritorious Cases.....	243
Questions Submitted for the Record.....	245
Representative Ernest J. Istook.....	252
Representative Nita Lowey.....	247
Representative Anne Northup.....	249
Representative Nancy Pelosi.....	245
Regional Offices/Regional Directors.....	240
Representation Cases.....	243
Salting Cases.....	239

Social Security Administration

800-Number.....	522
Administrative Request.....	562
Annual Rate of Return.....	551
Average Entry-Level Salary.....	524
Average Processing Time.....	557
Backlog of Hearings.....	560
Beneficiaries:	
By Program.....	520

Increasing Rolls.....	552
Preparing for Agency's Workloads.....	562
Beneficiaries by Program.....	520
Biography:	
Larry G. Massanari, Acting Commissioner.....	547
Peter D. Spencer, Acting Deputy Commissioner for Finance, Assessment and Management.....	548
Black Lung.....	521
Budget Requests:	
Administrative Request.....	562
Justification of Estimates.....	575
Opening Statement.....	520, 521, 523, 524
Collaboration with Department of Labor.....	568
College Recruitment.....	524
Combating Fraud and Abuse.....	568
Continuing Disability Reviews (CDRs):	
CDRs.....	550
Cessation Rates.....	555
Program Integrity Work.....	564
Return on SSA's Investment in.....	555
Seven-Year Plan.....	564
Continuing Disability Reviews.....	550
Continuing Disability Reviews Cessation Rates.....	555
Direct Deposit.....	519
Disability:	
Average Processing Time.....	557
CDR Cessation Rates.....	555
Continuing Disability Reviews.....	550
Determination Process.....	556
Qualifying and Re-Qualifying Individuals for SSI Disability..	554
Research Related to Ticket to Work.....	566
Return on SSA's Investment in Continuing Disability Reviews..	555
Rhode Island's Allowance Rate.....	557
Seven-Year CDR Plan.....	564
Standards.....	550
Disability Determination Process.....	556
Disability Standards.....	550
Estimated Return on Stock Market Investments.....	558
Expanded Use of Social Security Numbers.....	562
Explanation of Government Pension Offset and Windfall Elimination Provision.....	553
Field Offices Working with Congressional Staff.....	558
Funding:	
Administrative Request.....	562
Justification of Estimates.....	575
Opening Statement.....	520, 521, 523, 524
Government Pension Offset (GPO):	
Explanation of GPO and Windfall Elimination Provision.....	553
Government Pension Offset.....	553
Government Pension Offset.....	553
Helping with the Homeless Issue in Providence.....	561
Increasing Beneficiary Rolls.....	552
Integrity:	
CDRs.....	550
CDR Cessation Rates.....	555
Combating Fraud and Abuse.....	568
Program Integrity.....	551

Program Integrity Work.....	564
Return on SSA's Investment in CDRs.....	555
Seven-Year CDR Plan.....	564
SSN Misuse Statistics.....	563
SSNs and Identity Theft.....	563
Introduction of Witnesses.....	519
Justification of Estimates for Appropriations Committees.....	575
Limited English Proficiency Issues.....	565
Medicare Appeals Process.....	573
Opening Statement.....520, 521, 523,	524
Piloting Rollover of Field Office Phone Lines to 800-Number.....	550
Preparing for Agency's Workloads.....	562
President's Plan for Individual Accounts.....	559
Privatization:	
Estimated Return on Stock Market Investments.....	558
President's Plan for Individual Accounts.....	559
Social Security Commission.....	571
Social Security Commission and Advisory Board.....	553
Treasury Securities and Privatization.....	550
Program Integrity.....	551
Program Integrity Work.....	564
Qualifying and Re-Qualifying Individuals for SSI Disability.....	554
Questions for the Record.....	562
Reaching Out to Younger Workers.....	569
Recap of Plan to Rollover Calls to 800-Number.....	560
Research Related to Ticket to Work.....	566
Return on SSA's Investment in Continuing Disability Reviews.....	555
Return on Trust Fund Investments.....	551
Rhode Island's Allowance Rate.....	557
Seven-Year CDR Plan.....	564
Social Security Commission:	
Commission and Advisory Board.....	553
Estimated Return on Stock Market Investments.....	558
President's Plan for Individual Accounts.....	559
Social Security Commission.....	571
Treasury Securities and Privatization.....	550
Social Security Commission.....	571
Social Security Commission and Advisory Board.....	553
Social Security Numbers (SSNs):	
Expanded Use of SSNs.....	562
SSN Misuse Statistics.....	563
SSNs and Identity Theft.....	563
Social Security Number Misuse Statistics.....	563
Social Security Numbers and Identity Theft.....	563
SSA Does a Good Job.....	560
SSA's Recruitment and Training.....	570
Staffing:	
Average Entry-Level Salary.....	524
College Recruitment.....	524
Preparing for Agency's Workloads.....	562
SSA's Recruitment and Training.....	570
Statements:	
Full Statement for the Record.....	526
Limitation on Administrative Expenses.....	543
Office of Inspector General.....	545
Opening.....	520
Payments to Social Security Trust Funds.....	536

Special Benefits for Disabled Coal Miners.....	538
Supplemental Security Income.....	540
Telephone:	
800-Number.....	522
Access at Canton Field Office.....	519
Piloting Rollover of Field Office Phone Lines to 800-Number..	550
Recap of Plan to Rollover Calls to 800-Number.....	560
Telephone Access at Canton Field Office.....	519
Treasury Securities and Privatization.....	550
Trust Funds:	
Annual Rate of Return.....	551
Return on Investments.....	551
Solvency.....	551
Treasury Securities and Privatization.....	550
Trust Fund Solvency.....	551
Women's Social Security Benefits.....	571

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